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Transition Series

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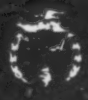
Foreign Economic Assistance Issues



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GAO

United States
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Comptroller General
of the United States

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The President of the Senate
The Speaker of the House of Representatives
The Administrator-designate, Agency for International Development

This summary report is one in a series addressing major policy, management, and program issues facing Congress and the new administration. Discussed in this report are key issues relating to the foreign economic assistance programs of the Agency for International Development (AID).

Three broad categories of issues are addressed: (1) reexamining AID's role in critical policy areas, (2) improving AID management and administration, and (3) strengthening accountability and control over assistance. Because the bilateral assistance program represents such an important link between the United States and the developing world, we believe that these issues need to be considered in efforts to design an effective program for the 1990s.

These issues are discussed in detail in the documents and reports listed at the end of this report.

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Role of the Agency for International Development in Critical Policy Areas

For over a quarter of a century, the United States has provided billions of dollars in bilateral economic assistance to the developing world. The program has made important contributions to improving conditions in developing countries; however, there is increased concern that the Agency for International Development (AID) is not able to manage the program effectively.

In the early 1970s, the emphasis of U.S. development assistance changed from large infrastructure projects (e.g., dams, roads, buildings, and industrial plants) to activities designed to directly address the basic needs of the poor. AID officials believe this emphasis encouraged AID to reorient its strategy toward numerous small-scale projects, which were more complex to design and created management burdens, less visibility for the United States, less potential for policy leverage with recipient governments, higher administrative costs, and reduced capacity to meet political and/or development objectives. A rethinking of this basic strategy may be necessary.

The Foreign Assistance Act of 1961, as amended, now contains more than 30 separate directives covering a wide range of development assistance objectives, such as

promoting human rights, protecting tropical forests, integrating women into the economies of developing countries, and using appropriate technology for small farms and businesses.

Each directive has merit, but the multiplicity of objectives

- creates confusion as to the direction the Congress believes the foreign assistance program should take,
- contributes to a lack of consensus between the Congress and the executive branch on the priorities of programs, and
- reduces the possibility of AID being held accountable for achieving any particular objective.

In reexamining the legislative framework, the Congress and the administration need to consider the policies and priorities AID should be addressing in the 1990s. In addition, consideration should be given to identifying better ways to administer, manage, and control resources allocated to the program.

Among the many development issues confronting the program, the administration and the Congress need to examine the role

of AID in addressing the multidimensional issues of international debt, narcotics control, environmental degradation, and Acquired Immune Deficiency Syndrome. For example, during 1987 developing countries experienced a $29-billion net outflow, largely due to the interest they paid on their $1.2-trillion external debt.

The magnitude of the debt problem raises several questions concerning the amount of foreign aid that may be necessary to help encourage economic growth in developing countries, the extent to which the United States can or should intervene in the international debt problems of developing countries, and the aid strategy that is most appropriate for individual countries.

Managing the AID Program

Audits and evaluations have repeatedly identified significant and recurring management weaknesses in AID, raising questions as to whether it has exceeded its capacity to manage a program consisting of approximately 2,000 projects in more than 70 countries throughout the developing world. Although decentralized operations are critical to achieving AID's goals and an asset in conducting U.S. foreign policy, such operations clearly increase the complexity of programming, make management and oversight more difficult, contribute to increased administrative and program costs, and increase the risk of fraud and abuse.

To manage its worldwide activities, AID has had to place increasing reliance on contractors and host-country nationals. This has led to monitoring weaknesses and has directly contributed to problems in accountability and control over funds which reduce the effectiveness of our assistance programs.

Also, a basic tenet of the AID program is to encourage sustained economic growth. However, recipient governments have repeatedly failed to provide agreed upon counterpart funding for project assistance, thus delaying project implementation,

increasing U.S. costs, and reducing program impact. Similarly, after AID's involvement has ended, completed projects have become unproductive or have not achieved their full potential, due to insufficient cost financing and poor operations and maintenance by the recipient.

AID needs to consider focusing programs on more manageable units by reducing the number of overseas missions, concentrating resources and personnel on key countries, and concentrating resources on fewer and/or larger projects rather than on numerous small projects.

AID also needs to use program funds more efficiently and in a more timely manner. AID's multi-billion dollar pipeline of obligated but undisbursed funds suggests inefficient use of available funding and program/project implementation difficulties. AID should reduce the pipeline by such methods as requiring that obligations on the books for long periods of time be systematically reviewed and revalidated.

AID generates several hundred reprogramming notifications annually, representing over $1 billion in revised budget allocations. Under current legislation, AID must justify to Congress most changes it proposes to make to the program outlined in

its annual budget. Improvements in programming should lead to reducing the number of reprogramming notifications and thus reduce AID's administrative burden.

Strengthening Accountability and Control Over Funds

The credibility of the AID program has been weakened by accusations and revelations about misuse and diversions of funds. Control over Economic Support Fund (ESF) programs, which grew from $1.9 billion in fiscal year 1979 to $3.9 billion in fiscal year 1987, has been questioned. According to an internal AID analysis, U.S. dollars have gone to Swiss or other offshore bank accounts. Also, the disposition or use of ESF cash transfer dollars often could not be determined because the funds were commingled with other recipient country revenues and host-country reporting frequently was inaccurate, late, or non-existent. AID has made efforts to improve accountability and control over ESF programs, but it needs to strengthen control over program funds.

AID also needs to improve its control over local currencies generated from the Commodity Import and Public Law 480 Programs. Because of inadequate accounting, monitoring, and reporting, AID cannot systematically determine whether required deposits were made or whether withdrawals and disbursements were made for agreed purposes. AID could significantly improve its management of local currencies by upgrading accountability and control requirements, strengthening monitoring of fund use, and independently

verifying reports by host-countries on uses of local currencies. Accomplishing this will require strong executive branch and congressional support.

Many of AID's accountability problems can be traced to limitations and weaknesses of recipient countries. Most developing countries agree that improved financial management capability could significantly benefit the performance of U.S. development assistance programs. AID should include strengthening the financial management capabilities of AID recipients as an integral part of its long-term assistance strategy.

Related GAO Products

FOREIGN AID: Better Management of Commodity Import Programs Could Improve Development Impact (GAO/NSIAD-88-209, Sept. 26, 1988).

FOREIGN AID: Improving the Impact and Control of Economic Support Funds (GAO/NSIAD-88-182, June 29, 1988).

DRUG CONTROL: U.S. International Narcotics Control Activities (GAO/NSIAD-88-114, Mar. 1, 1988).

FOOD AID: Integration With Economic Assistance Programs in Four African Countries (GAO/NSIAD-88-96FS, Feb. 25, 1988).

FOOD AID: Improving Economic and Market Development Impact in African Countries (GAO/NSIAD-88-55, Dec. 21, 1987).

AIDS: Information On Global Dimensions and Possible Impacts (GAO/NSIAD-88-51FS, Oct. 28, 1987).

LIBERIA: Need To Improve Accountability and Control Over U.S. Assistance (GAO/NSIAD-87-173, July 16, 1987).

FOREIGN AID: Potential for Diversion of Economic Support Funds to Unauthorized Use (GAO/NSIAD-87-70, Jan. 14, 1987).

FOREIGN ASSISTANCE: U.S. Use of Conditions to Achieve Economic Reforms (GAO/NSIAD-86-157, Aug. 25, 1986).

FOREIGN ASSISTANCE: How the Funds Are Spent (GAO/NSIAD-86-73, Mar. 7, 1986).

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